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Report Distribution: The Internal Audit Division shall follow GAGAS Reporting Standards related to Report Issuance and Distribution. (GAS 4.45, 5.62, 7.44) To ensure compliance with these standards, auditors shall complete the Quality Assurance Checklist. (See Form 1)

➤ Distribution

Once approved by the IIAA (or Audit Director, if authorized), the report becomes public information, unless the audit involves material that is classified for security purposes or contains confidential or sensitive information, which limits report distribution. If certain pertinent information is prohibited from public disclosure in accordance with Maryland's Public Information Act¹, or is excluded from a report due to the confidential or sensitive nature of the information, auditors shall disclose in the report that certain information has been omitted and state the reasons why. Consideration shall be given to issuing a separate, classified, or limited use report to only authorized persons. (See Chapter IIIG, Audit Reporting Standards)

It is our policy to distribute audit reports to the appropriate officials of the audited entity who can ensure that the results are given due consideration and to the appropriate officials of the organizations requiring or arranging for the engagement. In addition, we also send copies of the reports to other officials who have legal oversight authority or who may be responsible for acting on the findings and recommendations and to others authorized to receive such reports. Auditors should document any limitation on report distribution in the working papers.


Upon approval of the Audit Director, the Administrative Coordinator shall promptly distribute reports as follows, unless there are restrictions that limit report distribution as stated above. This distribution list may be expanded as necessary for a specific report.

County Reports

To: Board of County Commissioners (BoCC), County Manager, Division Director, and Department Head

Copies: IIAA, Internal Audit Division staff, Board of Education (BOE), Frederick Community College (FCC) Board of Trustees, and the County's external financial auditors

¹ Maryland's Public Information Act ("PIA") gives the public the right to access government records without unnecessary cost and delay. <http://www.oag.state.md.us/Opengov/pia.htm>

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Frederick County Public School System (FCPS) Reports

To: Superintendent, BOE, Division Director, and Department Head

Copies: Executive Director, Fiscal Services Division; Assistant Director, Fiscal Services Division; IIAA, Internal Audit Division staff, BoCC, County Manager, FCC Board of Trustees, and FCPS' external financial auditors

FCC Reports

To: President of FCC; FCC Board of Trustees; Vice President for Administration, FCC; Division Director, and Department Head

Copies: IIAA, Internal Audit Division staff, BoCC, County Manager, BOE, and FCC's external financial auditors


Website

Unless the report is restricted by law or regulation, or contains privileged or confidential information, audit reports are public information and, therefore, are made available to the public. Promptly after report issuance, the Administrative Coordinator shall add the report to the Internal Audit Division's website at <http://www.co.frederick.md.us/index.asp?nid=1191>, upon approval of the Audit Director, to make the reports available to the public.


Note: The Internal Audit Division shall coordinate Maryland Public Information Act (MPIA) media requests with the County's Public Information Officer, in accordance with Public Information Officer Communication Policy and Procedures, No. 08-04 dated March 11, 2008.

➤ Recording of Report Distribution

Auditors shall include a copy of e-mails distributing discussion draft, draft reports, and final reports in the working papers to document the report distribution. In addition, the Administrative Coordinator shall enter the report in the Master Log by Report Number (Audit Report Log). (Logs are held at Form 14) The Administrative Coordinator will assign a Report Number in numerical sequence for that Fiscal year and in accordance with the assigned project number. The Audit Report Log will include the Report Number/Project Number, Audit Title, Report Issue Date and names of staff assigned to each project when performed internally.

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The logs also include a Recommendations and Accomplishments Log to track the status of recommendations and to identify accomplishments made as a result of our audit work. This log will be updated upon audit follow up as discussed in Chapter IIIJ.

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Overview of the Audit Process: The process followed in conducting audits (or attestation engagements), submitting reports to the IIAA for approval, and issuing reports to auditee management consists of the following phases:


Audit Selection (Chapter IIIB) - The Audit Director selects audits or attestation engagements from the Annual Audit Plan approved by the IIAA prior to the start of each fiscal year. The plan may be adjusted during the year because of unanticipated audit requests or allegations of fraud, waste, or abuse made to the Fraud Hotline that require immediate attention or brought forth by department directors or supervisors. The Director shall keep the IIAA informed as to any changes to the plan that are needed by providing the IIAA an update of the risk assessment and work plan at each IIAA meeting. At this time the Audit Director shall determine if the audit will be externally or internally provided.

Initiating the Audit (Chapter IIIC)-The Audit Director assigns staff and identifies the type of assignment (financial audit, performance audit, or attestation engagement—See Chapter IIA Government Auditing Standards). The Audit Director shall also determine which external contractor is best suited based on their expertise and knowledge areas at this time if the audit will be externally provided by a contractor. After that, the auditors shall:

- Obtain a Project Number from the Administrative Coordinator;
- Prepare an Audit Announcement Memorandum (Form 4) for the Director's approval and signature (if the audit is going to be provided by an external contractor, this may come in the form of a audit Task Order);
- Complete a Certificate of Independence (Form 18a) (internal audits only);
- Create a working paper file (internal audits only); and
- Schedule an entrance conference.

Audit Planning (Chapter IIID)-Auditors conduct a preliminary survey to familiarize themselves with the subject matter being audited by conducting interviews and reviewing information, including criteria, policies and procedures, and internal controls. They conduct a risk assessment to identify the highest risk areas requiring testing during fieldwork and identify evidence needed to support potential findings. They determine the audit objectives, scope, and methodology; staffing needs and audit schedule. (Financial Audits GAS 4.01-4.48; Attestation Engagements GAS 5.01-5.67; and Performance Audits GAS 6.01-6.85). If an external contractor is utilized, the planning is fully conducted by the contractor however the Audit Director shall be involved in the planning meeting and in the understanding of the planning process from the contractor.

Audit Fieldwork (Chapters IIIE and IIIF)-Fieldwork consists of data collection, analysis, and other activities designed to address audit objectives. During fieldwork, auditors are required to obtain sufficient appropriate evidence to provide a reasonable basis for audit findings and conclusions

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and prepare audit documentation. Auditors must follow GAGAS Fieldwork standards for the specific type of audit being performed as described in Chapter III E (Financial Audits GAS 4.01-4.48; Attestation Engagements GAS 5.01-5.67; and Performance Audits GAS 6.01-6.85) Auditors shall also follow Internal Audit Division policies and procedures for fieldwork as described in Chapter III F. If an external contractor is utilized, audit fieldwork is fully conducted by the contractor. However, the Audit Director shall maintain an understanding of the progress of fieldwork and assist the contractor in obtaining needed information from departments as well as assist the contractor in determining that audit objectives are being captured by the audit process. At any given time the Audit Director shall have an understanding of the status of the audit being conducted by an external contractor and shall obtain monthly status reports from the contractor for presentation at the IIAA meetings.

Reporting (Chapter III G and III H) - Reporting is the preparation of the written report which communicates auditors' findings, conclusions, and recommendations to responsible managers of the audited entity and other appropriate officials. Auditors must follow GAGAS Reporting Standards for the specific type of audit being performed—Financial Audits GAS 4.17-4.45; Attestation Engagements GAS 5.18-5.67; and Performance Audits GAS 7.01-7.44. (See Chapter III G) Auditors shall also follow Audit Reporting Policies and Procedures contained in Chapter III H, which includes Characteristics of a Well Written Report, Stages of the Report Writing Process, Report Formats, and Review and Approval. If an external contractor is utilized, reporting is prepared and reviewed first with the contractor and then provided in draft form to the Audit Director for review and approval. Once approved by the Audit Director, the IIAA will also review the report and the report will also be discussed with the audited entity prior to being fully approved for final release to the contractor.


Report Distribution (Chapter III I)-After the audit report is approved, the Administrative Coordinator distributes the report to appropriate officials of the audited entity who can address the audit results and recommendations, and to other appropriate officials. In addition, the report is promptly made available to the public by placing it on the Internal Audit Division's website, unless the report contains "Confidential" or "Sensitive" information and is marked as such.

Follow-Up (Chapter III J)- The Internal Audit Division conducts a follow-up review approximately 6 months after report issuance and tracks each recommendation until implementation. Follow-up reports or memorandums are issued to the responsible managers and other appropriate officials. Follow-up reports or memorandums are considered non-attest services and do not fall under GAGAS requirements.

Non-attest Services (Chapter III K)- The Internal Audit Division may at times provide non-attest services to departments. These services will usually include audit follow-up procedures and investigations or analysis as requested through the hotline or department heads. These services

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are not subject to GAGAS and will be reported as such. These services will be communicated through memorandum from the Internal Audit Division to the respected Department or requesting party.

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Audit Selection: Audits and attestation engagements are selected from the Annual Audit Plan which is submitted to and approved by the IIAA prior to the start of each fiscal year or the on-going Risk Assessment which is discussed with the IIAA on a monthly basis as risk areas continually change. The Division also receives audit requests from directors and managers within the County, Frederick County Public Schools, and Frederick Community College.


Developing the Annual Audit Plan

Annually, the Internal Audit Division Director will have live meetings with department directors and managers to go over risk assessment and the risk assessment questionnaire within the three entities. These meetings will allow the Internal Audit Division internal departmental insight and properly weigh risk based on high, medium and low categories. The Director then prepares a Strategic 5-Year Plan that identifies potential audit areas based on risks within each entity. The risk assessment identifies certain divisions and departments; and programs, activities, or functions within them; where the probability of something going wrong and the exposure, or cost, of something going wrong, is the greatest. Examples of such risks that should be considered are business disruption risk, customer service risk, data integrity risk, financial/external report misstatement risk, fraud risk, legal and regulatory risks, risk of waste and abuse and physical harm risk.

When assessing risks, the following factors should also be considered:

- **Significance:** Potential for savings/service improvement, risk of loss or abuse due to large expenditures or inherent program risk, materiality, and volume of activity
- **Sensitivity:** Interest of management, public or the media; social, environmental or economic impact; and confidentiality of data
- **Susceptibility:** Evidence of problems or wrongdoing; impact from possible non-compliance with laws, regulations, policies; changes in key personnel or operations; perceived need for new systems, procedures; and lack of performance measures and system for monitoring
- **Prior Audit Coverage:** Prior significant findings, lack of recent audit

The Strategic 5-Year Plan will reflect each audit area, the risk rating, the year the audit is tentatively scheduled, and whether the planned audit was requested. Using the Strategic 5-Year Plan, the Director prepares the Annual Audit Plan to focus resources on the highest risk areas, any mandated audits, and audit work that is required to support external auditors. The plan also includes non-attest services such as follow-up reviews and allows time for unanticipated audit

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requests or allegations of fraud, waste, or abuse made to the Fraud Hotline that requires immediate attention. It also includes time to complete audits started from the prior fiscal year. The Annual Audit Plan will reflect each area to be audited and budgeted staff hours for each of the three entities.

The Director submits the Strategic 5-Year Plan and Annual Audit Plan to the IIAA for approval. Once the audit plans have been approved by the IIAA, the Director will forward them to members of the FCPS Board of Education, FCC Board of Trustees, Frederick County Government Board of County Commissioners, management, and the external auditors for each entity. The Director shall offer to brief each entity on the audit plans.


After the beginning of the fiscal year, the Director selects audits, attestation engagements, and non-attest services from the Annual Audit Plan. The Director considers the skills of available staff, coverage provided to each of the three entities, and mandated audit completion or report issuance dates. The Director shall keep the IIAA informed as to any changes to the plan that are needed. The plan can continually change throughout the risk with on-going risk assessment and requests. These changes will be discussed with the IIAA at their regular meetings.

Requests for Audits or Other Services

Each year, when risk assessment meetings are performed, the Internal Audit Division includes a form for directors and managers to use to suggest an area for audit (See Form 2 Audit Suggestion Form) The Director reviews each request and incorporates them into the audit plans pending the merit of the request, availability of audit hours, and technical expertise of the staff. The Director summarizes the audit requests received and recommends to the IIAA which ones should be included in the plans. Requests for audits or other services, such as providing technical advice on internal controls contained in a written procedure, are also received during the year. Requests can come from verbal meetings with directors, in writing by internal memorandum form or by e-mail to the Internal Audit Division Director. Requests for consulting services, non-attest services, will be reviewed in accordance with Chapter IID, Independence.


The IIAA's policy, as stated in Chapter IA, Statement of Authority and Responsibility, is that requests for audits deemed to be politically motivated, not within the IIAA's scope or authority, or beyond the expertise of the Internal Audit Division will not be approved for performance. Also, as stated in Chapter IID, Independence, the Internal Audit Division will only provide non-attest services that do not impair auditor independence, as described in Sections 3.34 and 3.48 of the *Government Auditing Standards* December 2011 Revision.

The Internal Audit Division Director shall have the authority to approve or disapprove all requests for audit or other services, which are estimated to require less than thirty-five (35) hours to

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perform. All other requests for audit or consulting services requiring 35 hours or more to perform must be approved or disapproved by the IIAA. Prior to disapproval of any request that will require less than 35 hours to perform, the Director shall consult with the Chair of the IIAA. In addition, all disapproved special requests will be reviewed by the IIAA at its monthly meetings. If a request originally estimated to require less than thirty-five (35) hours to complete cannot be completed in that time, the Director will seek approval from the IIAA prior to continuance of work on the request.

It is the policy of the Board of County Commissioners (adopted November 9, 1982) that a special audit of any agency fund administered by an elected official be conducted by the IIAA whenever a change in elected official occurs. The audit shall cover the period from the date of the latest audit of Frederick County's financial statements to the last day in office of the outgoing elected official. See the policy at Appendix H.

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Initiating the Audit: The following tasks are required before beginning an audit or attestation engagement:

Assign Staff:


The Internal Audit Division Director, in consultation with the Audit Manager (when applicable), assigns staff and determines whether the assignment is a financial audit, performance audit, or attestation engagement. As stated in Chapter IIF, Competence, the Director is responsible for ensuring that staff assigned to conduct an audit or attestation engagement under GAGAS collectively possess the technical knowledge, skills, and experience necessary to be competent for the type of work being performed. (GAS 3.69) Outside consultants are used when specific technical skills, such as skills to audit IT systems, are needed. The Director, in consultation with the Audit Manager (when applicable), reevaluates the staffing needs at the end of the Planning phase of the audit. When an external contractor is utilized to perform an audit, the Internal Audit Division Director must determine which external contractor (if multiple contractors are utilized) is best suited for the engagement based on the contractor's proposal and shown expertise areas. Contractors are required to notify the Internal Audit Division Director if services requested are outside of their expertise area or capabilities.

Obtain a Project Number:

Upon the commencement of a new audit a project number must be obtained from the Administrative Coordinator. The project number and the budgeted hours included in the Annual Audit Plan approved by the IIAA are then entered in the Internal Audit Time Tracking System. The entrance conference date shall be considered the start date of the audit. The Administrative Coordinator will keep an on-going Master Log (Form 14). The Master Log will include an Audit Project Log, an Audit Report Log and a Non-attest Services Log. These logs will be maintained to track the jobs and project numbers. Project Numbers will be maintained by the Audit Project Log and will include the project number, audit title, and date of the entrance conference along with the name of the audit staff. Project numbers will be assigned by entity, type of work performed, the fiscal year and the numerical sequence of the job. (Frederick County Government will be under FCG, Frederick County Public Schools will be listed as FCPS and Frederick Community College will be listed as FCC). For example an audit for Frederick County Government started in fiscal year 2013 is the fourth audit for FCG then the project number would be FCG/audit-13-04.

Prepare an Audit Announcement Memorandum

The Director should prepare an Audit Announcement Memorandum (See Form 4) at least two weeks prior to beginning the audit for audits being performed internally. The memorandum should contain the objective and scope of the audit and the tentative start of the assignment. Management

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should be informed that the objective and scope may be revised after the completion of our preliminary survey, interviews, and risk assessment and they will be notified of any revisions. For recurring financial audits, an e-mail audit notification memorandum from the Director to management officials explaining the objective, scope, and timing of the audit will suffice. When the Internal Audit Division utilizes an external contractor for audit services, the department will be notified during the pre-planning phase and will assist in approval of a task order prepared and signed by the Internal Audit Director, the IIAA, the County Budget Director, and the external contractor. The task order will explain the scope and objective of the audit.

For internally performed non-recurring audits, the Director shall complete and attach an Audit Questionnaire (See Form 5) to the Audit Announcement Memorandum to obtain background information from the auditee's management on the subject matter of the audit (i.e. procedures, criteria, goals, budgets, plans, management controls etc.). The questionnaire should be tailored to the specific audit topic. In addition, the Director attaches an "Understanding the Audit Process" form, which discusses the purpose of an audit, how an audit area is selected for review, the audit process, the report process, and audit follow-up. (See Form 6)

Prepare a Certificate of Independence


Prior to the start of the audit, each auditor, including the Audit Director, shall complete and sign a Certificate of Independence (Form 18a) and include them in the working papers. (See Chapter IID, Independence). The lead auditor is responsible for ensuring that the Certificates of Independence are included in the working papers. If the auditors plan to use the work of a specialist, the auditor shall have the specialist sign the Certificate of Independence-Specialist form (Form 18b) and include the form in the working papers.

Also, prior to the start of each audit or attestation engagement, the lead auditor shall check the Non-attest Services Log (Form 14) maintained by the Administrative Coordinator to determine if any non-attest services have been performed that relate to the audit to be conducted, and whether any supplemental safeguards are needed.

For services provided by an external contractor, independence must be maintained and responsibility held by the contractor as required by the contractor quality control procedures.

Establish a Working Paper File


The Workpaper Index is used to establish the working paper file and to ensure that all required working papers are included. (See Form 3)

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For audits performed by an external contractor, workpaper files are prepared and maintained by the contractor.

Schedule an Entrance Conference

The Director is responsible for scheduling an entrance conference with the person(s) responsible for the area under audit, including audits performed by an external contractor. For non-recurring audits, scheduling an entrance conference takes place after receiving the completed Audit Questionnaire from the auditee. For recurring audits, where an Audit Questionnaire is not used, the Director schedules an entrance conference promptly after the auditee managers are notified of the audit.

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Audit Planning: *Government Auditing Standards* require auditors to adequately plan their work. They must plan the audit to reduce audit risk to an appropriate level to provide reasonable assurance that the evidence is sufficient and appropriate to support their findings and conclusions. Auditors shall review the standards to be followed for planning and conducting audits for the specific type of assignment. (Financial Audits GAS 4.01-4.48; Attestation Engagements GAS 5.01-5.67; and Performance Audits GAS 6.01-6.85) Auditors shall use the Quality Assurance Checklist to ensure that all standards related to audit planning are followed. (See Form 1)

The main purpose of the Planning Phase is to gain an understanding of criteria, policies and procedures, and internal controls and identify the highest risk areas requiring testing during fieldwork which may lead to potential audit findings. At the completion of this phase, auditors prepare an audit program. The audit program shall include the audit objectives (what the audit is intended to accomplish), scope (the boundary of the audit such as a particular program or aspect of a program, period of time that will be reviewed, locations that will be included), and methodology (nature and extent of testing).


The steps in the Planning Phase include (1) holding an entrance conference, (2) performing audit planning steps, (3) preparing an audit program, and (4) obtaining management approval.

Auditors shall maintain a streamlined approach to the planning process by limiting the Audit Risk Assessment to no more than two pages. In this document a brief statement on the control or absence of control shall be noted, the work paper reference, and a determination of whether the risk is high, medium or low. It shall also contain a reference to the specific test in the audit program if identified risk is planned to be tested.

The planning phase should take between 4 to 6 weeks. Approval must be received from the Audit Manager if more time is needed.

When an external contractor is utilized, the planning phase shall consist of the following:

- Identifying the audit to take place through use of the Audit Work Plan or from a immediate request deemed to be of high risk or importance
- Preparing a task order and discussing the task order with the IIAA and the auditee department.
- Once the task order is approved by the IIAA, and the County budget director it must be sent to the external contractor for response.
- Once the external contractor response is obtained and approved by the Director and the IIAA an entrance conference must be held as set up by the Director.
- After the entrance conference the external contractor will take over the remainder of planning with assistance from the Director when needed.

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Holding an Entrance Conference

The purpose of the entrance conference is to explain the intent of the audit and to establish a good working relationship with the auditee's management. To prepare for the entrance conference, the Director shall fill out an Entrance Interview Worksheet which includes an agenda for the entrance interview. (See Form 7) When an external contractor is utilized they will lead the entrance conference and the Director must take notes to be maintained in an internal workpaper file (this file shall contain the task order, deliverables provided by the contractor, and contractor invoices as well as notes from meetings with the contractor and auditee).


The entire audit team, including the Audit Director shall attend the entrance conference with senior management representatives of the division or department to be audited. The Director shall introduce the auditors and explain the objectives and scope of the audit; the major activities of each phase of the audit—survey, fieldwork, and reporting; audit milestones, reporting procedures, and the recipients of the final report. The Director shall explain our practice of briefing management during the audit to keep them informed of issues or concerns that we may have. The auditors shall ask for clarification of information provided by the auditee in the Audit Questionnaire and request input from management of special concerns, including the risks of fraud. Arrangements shall be made for access to the division or department's information systems, if necessary, and for use of the division's equipment, such as copiers and computers. The auditors shall document the entrance conference in the working papers and include a list of those who attended.

Performing Audit Planning Steps (internally based audits)

On internally based audits, during the planning phase, the auditor documents basic information on the Audit Planning Results Memorandum. (See Form 9) This information includes the preliminary audit scope and objective, staffing, start date, budgeted hours, key audit contacts, current operating environment, use of statistical sampling programs, and planned area of emphasis.

Auditors shall complete, initial, and cross-reference all steps included in the Standard Audit Program, Section A. Planning, to the applicable working papers. (See Form 8) The checklist ensures that auditors:

- Read applicable requirements contained in the Government Auditing Standards based on the audit type (financial, attestation, or performance audit)
- Review the most recent Internal Audit Division audit report and the status of prior recommendations;

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-Determine whether we can rely on work performed by other auditors and perform appropriate tests to provide a sufficient basis for such reliance;

-Review background information including policies, procedures, laws, regulations, mission statement, criteria, goals, and organization chart;

-Interview key staff to obtain an understanding of management controls and perform a walk-through as appropriate;

-Test the reliability of computer-processed data and complete the Data Reliability Checklist (See Form 21). GAGAS Section 6.66 requires the auditor to assess the sufficiency and appropriateness of computer-processed information.

-Conduct a risk assessment to identify major risk factors, taking into consideration the possibility of non-compliance with laws and regulations and fraud, and to determine which risk factors warrant testing during the audit; and

-Finalize the audit objectives, scope, and methodology.


Auditors shall finalize the Audit Planning Results Memorandum by providing a conclusion on internal controls, identifying any modifications to the audit scope and objectives, and describing the planned audit methodology based on the results of the risk assessment. (See Form 9) The memo shall include any issues related to the lack of sufficient, appropriate evidence needed to address the audit objectives. The Audit Planning Results Memorandum shall also include any actions to reduce audit risk,² such as increasing the scope of work, adding experts, adding additional staff, changing the methodology to obtain additional evidence, or aligning the findings and conclusions to reflect the evidence obtained.

Preparing an Audit Program (internally based audits)

At the completion of the Planning Phase, if further audit work is not necessary, the auditor submits a **NO GO DECISION MEMORANDUM** to the Audit Manager explaining why. (See Form 10) The form requires approval of the Audit Director. The Audit Director shall communicate this decision to the auditee and document such communication in the working papers.

If further audit work is necessary, auditors shall prepare a Detail Testing Program to address the audit objectives. (See Form 11) The program shall include the audit objective(s) as stated in the

² Audit risk is the risk that auditors will not detect a mistake, inconsistency, significant error or fraud in the evidence supporting the audit. (GAS 6.07)


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Audit Announcement Memorandum (See Form 4), or the revised objectives as stated in a revised Audit Announcement Memorandum. The program shall also include specific testing objectives and procedures that will answer the stated, or revised, audit objectives.

The testing objectives and procedures to be performed will be based on the risk assessment performed during the planning phase. Auditors shall determine the amount and type of evidence needed to obtain sufficient, appropriate evidence to address the audit objectives and plan audit work. Auditors shall design and perform procedures to provide reasonable assurance of detecting instances of violations of legal and regulatory requirements or violations of provisions of contracts or grant agreements significant to the audit objectives. Auditors shall also assess risks of potential fraud occurring that is significant within the context of the audit objectives.

Obtaining Management Approval

Auditors shall submit the Planning working papers and Detail Testing Program to the Audit Director for approval. If the audit objectives and scope have changed from those in the Audit Announcement Memorandum, the auditee shall be notified in writing of the change before the start of audit testing. The Audit Director shall review and approve the Detail Testing Program to ensure that (1) the announced, or revised, audit objectives are identified in the program, (2) specific testing objectives and tests address the announced or revised objectives, and (3) the amount and type of evidence being reviewed is sufficient and appropriate to address the audit objectives. They will make any staffing and budget adjustments needed to complete the audit.

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Audit Fieldwork Standards (internally based audits): Once the Audit Manager and Audit Director approve the audit program, auditors begin fieldwork. It is the Internal Audit Division's policy to follow the Fieldwork Standards contained in the 2011 revision to the *Government Auditing Standards* (GAGAS) for the type of assignment (Financial Audit, Attestation Engagement, or Performance Audit).

Auditors must continually focus on ensuring that audit work is performed in accordance with GAGAS. Auditors should discuss any anticipated departures from GAGAS with the Audit Director and shall document any departures from GAGAS and the impact on the auditor's conclusions. Auditors shall follow policies and procedures in this audit manual that implement such standards (See Chapter IIID, Audit Planning; and Chapter IIIF, Audit Fieldwork Policies and Procedures), and any Operating Procedure Memos issued by the Audit Director.


Auditors shall review the Quality Assurance Checklist and use it as a guide to ensure that all Fieldwork Standards and internal policies and procedures are followed. (See Form 1) This checklist requires signatures by all audit staff involved including the Audit Director. This checklist must be completed and signed prior to submitting final audit reports to the Interagency Internal Audit Authority (IIAA) for approval.

For all types of assignments, GAGAS require that:

- Sufficient staff and specialists with adequate collective professional competence are assigned to perform the audit. (GAS 3.69, 6.12d, 6.45)
- Work shall be adequately planned, documented, and supervised. (GAS 4.15-4.16, 5.16-5.17, 6.61 -6.52, 6.79-6.85)
- Auditors shall obtain a sufficient understanding of internal control (GAS 4.19-4.24, 5.20-5.23, 6.16-6.22)
- Auditors shall prepare a written plan for each audit or attestation engagement and perform procedures to achieve the audit or engagement objectives and update it as necessary. (GAS 6.51-6.52)
- Auditors shall obtain sufficient³, appropriate⁴ evidence to provide a reasonable basis for their findings and conclusions. (GAS 4.15-4.16, 5.16, 6.56-6.72)

³ Sufficiency relates to the amount of appropriate evidence.

⁴ Appropriate relates to the quality, relevance, reliability, and validity of the evidence.

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- Auditors shall develop the elements of findings: criteria, condition, cause, and effect or potential effect. (GAS 4.10-4.14, 5.11-5.15, 6.73-6.77)
- There must be evidence of supervisory review of work that supports the auditor's findings, conclusions, and recommendations, before report issuance. (GAS 4.15a, 5.16b, 6.53-6.55)
- If an audit or attestation engagement is terminated, auditors shall document work done to date and explain why it was terminated. Auditors shall determine whether and how to communicate the reason for termination to the auditee. (GAS 6.50)

Since the Internal Audit Division primarily conducts performance audits, specific fieldwork standards for Financial Audits and Attestation Engagements are not restated in this chapter. However, auditors shall follow GAS Chapter 4 for Financial Audits and GAS Chapter 5 for Attestation Engagements.


The key requirements contained in the GAGAS Fieldwork Standards related specifically to Performance Audits are summarized as follows:

Performance Audits (GAS 6.01-6.85)

Auditors shall plan and document audit work necessary to define the objectives, scope and methodology so that their work will provide reasonable assurance that sufficient, appropriate evidence will support their conclusions. (GAS 6.03-6.12) Auditors shall communicate an overview of the objectives, scope, methodology, and timing of the audit and planned reporting to management and other appropriate officials and document such communication. (GAS 6.47- 6.50) Auditors shall evaluate whether to use the work of other auditors or experts. (GAS 6.40- 6.46) Auditors shall prepare a written audit plan to address the audit objectives and update the plan to reflect significant changes. (GAS 6.06, 6.12f, 6.51-6.52)

Auditors shall assess significance and audit risk when defining audit objectives and scope. (GAS 6.12) Significance is defined as the relative importance of a matter within the context in which it is being considered, including quantitative and qualitative factors. (GAS 6.04) Audit risk includes the risk that auditors will not detect a mistake, inconsistency, significant error, or fraud in the evidence supporting the audit. (GAS 6.05)

Auditors shall plan the audit to reduce audit risk to an appropriate level to provide reasonable assurance that the evidence is sufficient and appropriate to support the auditors' findings and conclusions. (GAS 6.07) To assess audit risk, auditors shall gain an understanding of the nature and profile of the programs and needs of potential users of the report; internal control as it relates to the specific objectives and scope of the audit; information system controls; legal and regulatory

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requirements, contract provisions, and/or grant agreements, potential for fraud and abuse that are significant within the context of the audit objectives; and the results of previous audits. (GAS 6.11)

Auditors shall identify potential criteria and sources of evidence, and determine the amount and type of evidence needed given audit risk and significance. (GAS 6.12a, 6.12b) When auditors conclude that sufficient, appropriate evidence is not available, auditors shall evaluate whether internal control or other program weaknesses are the cause. (GAS 6.39) If auditors identify uncertainties or limitations in evidence, they shall apply additional procedures to strengthen the evidence by seeking independent corroborating evidence from other sources, redefine the audit objectives or scope to eliminate the need for the evidence, or revise the findings and conclusions accordingly. (GAS 6.72) Auditors shall assess the sufficiency and appropriateness of computer-processed information. (GAS 6.66)

If there are indications that fraud or abuse may have occurred that are significant to the audit objectives, the auditors shall extend audit steps and procedures as necessary to determine whether the fraud or abuse has occurred and its effect on the audit findings. (GAS 6.32) If the potential fraud is not significant to the audit objectives, auditors may conduct additional work as a separate engagement or refer the matter to other parties with oversight responsibility. (GAS 6.32) If auditors pursue indications of fraud, illegal acts, and violations of provisions of contracts or grant agreements, or abuse, auditors shall take appropriate action to avoid interfering with investigations or legal proceedings. (GAS 6.35)

Auditors shall prepare audit documentation relating to planning, conducting and reporting before issuing the report. (GAS 6.79) Auditors shall provide enough detail for an experienced auditor to understand the nature, timing, extent and results of work, evidence obtained, sources of evidence, and auditors conclusions and significant judgments. (GAS 6.79)

Externally Based Audits: When an external contractor is utilized to perform an audit, the contractor is required to follow GAGAS standards under their contract with the County. The contractor will be responsible for adhering to the standards and conducting their own quality control process. The Internal Audit Division Audit Director will be responsible for governance over the audit process and for obtaining monthly project status reports from the contractor. The Director will also be utilized to have full understanding of the fieldwork process by the contractor at any time and assist in guiding the contractor and helping the contractor communicate to the auditee department.

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Audit Fieldwork Policies and Procedures (internally based audits): In addition to complying with GAGAS (See Chapter IIIE), auditors shall comply with the Division's policies and procedures when performing fieldwork.

The policies and procedures relates to:

- Conducting the Audit;
- Preparing Working Papers;
- Obtaining Supervisory Approval; and
- Safeguarding and Retaining Working Papers.


➤ Conducting the Audit

Auditors shall conduct fieldwork necessary to complete the steps in the approved detail testing program. (See Form 11) If auditors determine that steps in the audit program are not needed, or additional steps should be added, they shall obtain the approval of the Audit Director. Steps considered not necessary may be marked as "N/A" however must include an explanation as well. When completing audit steps, auditors shall ensure that they verify statements made by auditee staff and to supporting documentation. Auditors shall also verify the results of their analyses with staff and management.

To assess the sufficiency and appropriateness of computer-generated data, auditors shall complete a Data Reliability Checklist (Form 21). Auditors shall contact the external financial auditors to determine whether the external auditors have tested controls over the information system generating the data and determine if we can rely on their work if controls were found to be effective. When computer-generated data are used during an audit, but such data are not significant to the findings or conclusions, auditors do not need to verify the data. However, they should note the source of the data in the working papers and the report.

Auditors shall obtain supervisory approval on the method to be used for selecting samples. Auditors shall select a sample of transactions to test, usually using random or haphazard sampling techniques or utilizing data extraction software either as maintained by the internal audit department or by request to contracted external internal auditors for use of their data extraction software. Auditors shall document the sampling methodology in the working papers.

If auditors find that evidence that is significant to the audit findings and conclusions have limitations or uncertainties, they shall promptly notify the Audit Director for instructions on applying additional procedures as appropriate. Such procedures include seeking independent corroborating evidence, redefining the audit objectives or limiting the scope, or revise the findings and conclusions accordingly. (GAS 6.72)

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Auditors shall communicate with auditee staff and management throughout the audit to discuss their potential findings and recommendations. If needed, the auditors shall hold an interim meeting with auditee management to discuss the status of the audit and issues found to date. If audit findings require immediate management attention, the auditors shall promptly advise the Audit Director, who will provide guidance on the need for an interim meeting with the auditee and the need for a management letter. The Audit Director shall advise the Interagency Internal Audit Authority (IIAA) of the findings and the Division's plans to issue a management letter.

Auditors shall be alert to indications of fraud, waste, or abuse and immediately report any indications of irregularities or illegal acts to the Audit Director. The Director shall promptly consult with the IIAA Chair and the County Attorney's Office to determine the appropriate course of action.


➤ Preparing Working Papers

Working papers that document audit work are an essential element of audit quality. They represent the principal support for the audit report, aid auditors in conducting the audit, and allow for supervisory review of audit quality. Working papers shall provide reasonable assurance that evidence is sufficient and appropriate to support the auditors' findings and conclusions and should be easily followed by another audit professional.

All audit work including discussions, descriptions of systems/operations, sampling etc. shall be documented in the working papers. Any records examined during the audit should be described in sufficient detail to allow the reviewer to locate and examine the same records. Any audit exceptions noted should be clearly explained with a reference to the working paper number where the exception occurred. Extraneous information should not be included. GAGAS does not require a copy of every document examined. Personal identifiable information obtained during audit procedures should also not be maintained in the audit workpapers (this includes employee ID's and social security numbers).

However, as required by GAGAS, auditors shall provide enough detail for an experienced auditor to understand the nature, timing, extent and results of work, evidence obtained, sources of evidence, and auditors conclusions and significant judgments. This means that working papers should "stand alone" without the need for auditors to have to explain what is on the working paper. Workpapers need to at least have enough information for another audit professional to be able to re-perform the audit work. For financial audits, documentation shall also show that the accounting records agree or reconcile with the audited financial statements or other audited information.

For attestation engagements, in addition to other documentation requirements explicitly addressed in GAS and AICPA standards, auditors shall document:

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- The objectives, scope and methodology of the audit/engagement;
- The work performed to support significant judgments and conclusions, including descriptions of transactions and records examined;
- Evidence of supervisory review, before the engagement report is issued, of the work performed that supports findings, conclusions, and recommendations contained in the engagement report; and
- The auditor's consideration that planned procedures are designed to achieve objectives when evidential matter obtained is highly dependent on computerized information systems and is material to the objective, and the auditors are not relying on the effectiveness of internal control over those computerized systems that produced the information.

The following standards should be followed for working paper documentation.

The heading of each working paper or series of working papers shall include the title of the audit, title of the working paper, and audit period. If a working paper is a write-up of a discussion, the date of the discussion shall be included in the title.

A working paper number should be placed in the bottom right or top right corner of all working papers, with the exception of double-sided working papers where the number shall be placed on the bottom left or top left corner. The auditor's initials and date prepared should appear above or below the working paper number. The supervisor's initials and date shall be placed below the auditor's initials and date⁵. If the workpapers are held electronically the initials may be stamped or input into the workpapers along with the proper dating.


Each series of working papers shall identify the purpose, source, scope and methodology or procedure, and conclusion:

Purpose-Why the working paper was prepared (i.e. To determine...)

Source-Who provided the information or where it was obtained. Working papers representing schedules, excerpts from procedures manuals or other information received from the auditee or a third-party should reflect the source of the information and date obtained.

Scope-The boundary of the audit test (i.e. time period of test, specific program or aspect of a program, location)

⁵ Supervisors shall initial and date each working paper or series of working papers reviewed. Supervisory initials may be above the auditor initials prior to 1/1/2014.

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Methodology-What steps were done to accomplish the purpose (include sampling methodology)? Fully explain the procedure with enough detail for re-performance of the work.

Conclusion(s)-The conclusion(s) of each series of working papers should clearly relate to the purpose of the working paper(s). Conclusions must be based on reasonable deductions from sufficient, appropriate evidence documented in the working paper or series of working papers.

Auditors shall cross-index facts, figures, statements from one working paper to a related working paper and to working paper summaries and the audit report. Working papers should not have unexplained comments, calculations, or marks and should be cross-indexed to summary working papers that clearly identify the purpose, scope, methodology, and conclusion of the work done. Cross-indexing should be both ways to show a direct link between working papers, and to the report. Complete and accurate cross-indexing facilitates review and preparation of the report and reduces the risk of an inaccurate report. Cross-indexing shall be performed for each proposed draft and final report where audit staff will cross-index lines, figures, charts, tables, diagrams and pictures to the supporting working papers. (See Chapter IIIH for further report cross-indexing guidance).

In conducting fieldwork, auditors need to make sure that information gathered provides adequate support for the audit findings. The framework widely recognized in government auditing as the best approach for developing and presenting audit findings is the “Five Elements of a Finding,” described as follows:


Condition - (“What is”) Condition is the existing state of affairs and represents a discrepancy between condition and criteria, or “what should be”.

Criteria - (“What should be”) Criteria are standards used to measure performance. Criteria can be in the form of laws or regulations, industry standards, statistics and or historical data.

Cause - (“Why did it happen?”) Cause is the explanation for the deviation between condition and criteria. Identifying cause is important in order to determine what action is needed to correct the problem

Effect - (“What is the adverse impact?”) Effect represents the impact of the discrepancy between condition and criteria. Effect is frequently stated in quantitative terms such as loss of dollars or productivity.

Recommendation - (“What should be done?”) The auditors make recommendations to management on actions needed to correct the deficiency. A recommendation is usually the inverse of the cause.

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The Draft Audit Condition form should be used to identify potential findings. (See Form 12) The form should be used during each audit phase, including the survey, to help identify potential findings. If a draft finding is later determined not to be a finding that the auditors include in the audit report, they shall explain why on the form.

Working papers shall be organized in accordance with the Workpaper Index. (See Form 3)


Auditors shall prepare summary working papers containing conclusions for each testing objective, as well as for the announced audit objectives. These summaries shall be cross-indexed to related working papers.

➤ Obtaining Supervisory Approval

Chapter IIG, Internal Quality Control, describes the Internal Audit Division's policies and procedures for supervisory review of work, which includes periodic meetings with staff to discuss the status of the audit or attestation engagement. In addition, Monthly Project Reports are provided to the Audit Director and the division requires that auditors obtain approval from the Audit Director when it is anticipated that milestones will not be met or total budgeted hours will be exceeded by 10 percent or more. It is incumbent upon auditors to request and justify additional time before the budget for the audit or attestation engagement is exceeded. In cases where there is a question about the need to extend the budget, the Audit Director shall make the final determination for approving the extension.

At the completion of fieldwork, auditors shall complete and initial all steps in the Detail Testing Program (See Form 11) and provide references to the working papers. Auditors shall complete all working papers and submit them to the Audit Director prior to issuance of the discussion draft. All working papers prepared after the discussion draft, such as a write-up of an exit conference, shall be submitted to the Audit Director for review and approval prior to issuance of the draft and final reports, as appropriate. The Audit Director's review is conducted to ensure that all steps in the Detail Testing Program have been completed, the audit was performed in compliance with GAGAS and this audit manual, and that there is sufficient, appropriate evidence to support the auditor's opinions and conclusions. The Audit Director shall sign off on the Detail Testing Program after ensuring the completion of all steps.

Supervisory review should be an ongoing process and take place, at a minimum at the critical points of an audit, at the end of the planning/risk assessment phase, and before the issuance of the discussion draft, draft and final reports.

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The Audit Director shall ensure that working papers are promptly reviewed and that such reviews are documented. Supervisory review will be required within 2 weeks (10 working days) of completion, but no later than at the end of the planning/risk assessment phase and the completion of testing. All working papers, or series of working papers, shall have evidence of supervisory review before the discussion draft is issued. The Audit Director will initial and date each working paper or series of working papers reviewed. Any review comments from the Audit Director or any other supervisory roles must be addressed and the workpapers must be resubmitted to the Audit director for re-review before the discussion draft may be issued. If additional working papers are prepared after the discussion draft or formal draft is issued, such workpapers must be reviewed by the Audit Director or supervisory role and corrected promptly by the auditor before issuance of the final report.


The Audit Director shall initial the completion of each step in the audit program. The Audit Director shall provide supervisory notes and ensure that comments have been satisfactorily addressed prior to issuance of the draft report. (See Form 13) The Audit Director will maintain these comments until after the peer review report is issued covering the issue date of the audit report, however the notes shall not be maintained as a part of the final workpaper file.

At the end of the audit, the audit team shall hold Message Meetings with the Audit Director to discuss the findings, recommendations, format, content, and message of the report. The audit team must present each audit condition, together with the criteria, effect, cause and recommendation. This meeting is utilized to ensure full communication and approval of the report findings and recommendations prior to writing of the draft report. The meeting shall be documented and an outline of the audit report prepared. If the Director determines that a message meeting is not necessary the auditor shall document that decision in the workpapers.

When a Discussion Draft is approved by the Audit Director, an exit conference shall be held with the auditee. The Audit Director shall attend the exit conference with the audit team. The purpose of the exit conference is to correct any errors or clarify the report prior to issuance of the draft report, when a written response is requested.

The auditors shall include a Quality Assurance Checklist in the working papers. (See Form 1) This checklist requires signatures by the lead auditor, Audit Manager (if applicable) and Audit Director. This checklist must be completed and signed prior to submitting audit reports to the Interagency Internal Audit Authority (IIAA). The signatures certify that the audit or attestation engagement was conducted in accordance with the December 2011 revision to GAGAS and the Internal Audit Division's Audit Manual and that the proposed draft and final reports are accurate.

The auditors shall also complete Section C, Audit Completion, of the Standard Audit Program (See Form 8) and ensure that all steps in the Standard Audit Program have been completed. The

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Audit Manager shall sign off on the Standard Audit Program after ensuring the completion of all steps.


Standards and procedures for preparing audit reports are provided in Chapters IIIG and IIHH.

➤ **Safeguarding and Retaining Working Papers**


Every effort shall be taken to ensure that working papers are protected from loss, damage, or theft. Working papers, reports, laptop computers, and any sensitive information should be placed in a locked file cabinet or desk drawer at the end of each day. In addition, audit staff should log-off their desktop computers when they plan to be away from the office for a length of time. When using laptops at an off-site location, auditors shall follow these procedures established to ensure adequate controls over the use of internal audit division laptops. Laptops should be checked out through the direction of the Audit Director. Laptops should be returned as soon as they are no longer needed so that they will be available in case others need to utilize them. The Administrative Coordinator is responsible for taking physical inventory of the laptops at the beginning of each fiscal year. While laptops are in staff possession they are too be secured at all times (in a locked drawer or office), if transported they must be hidden from plain sight and locked up. Personally identifiable information such as social security numbers and addresses should not be kept on audit laptops. When utilizing laptops at off-site locations a frequent backup of data to the in office R: drive should be performed daily.

When an audit is completed, auditors shall promptly place working papers in binders (when utilizing a paper workpaper file). For paperless files, the full file shall be backed up to the R: drive and located in the “Active Projects” file in the appropriate location. A paperless workpaper file shall be documented with the project number and workpapers organized by workpaper tab in folders in numerical/workpaper reference sequence. For paper files each working paper binder cover shall include the Title of the Audit, Project Number, Report Number, Date Issued, and binder number. Auditors shall ensure that the all workpaper files (paper and paperless in form) are complete and contain the discussion draft, draft, and final report, as well as the versions independently referenced and the independent referencer’s notes. Completed binders shall be given to the Administrative Coordinator for binding, labeling & filing in locked cabinets. Confidential paper reports shall be sealed, labeled, and filed in locked cabinets. Files shall be bound and filed as considered locked down within 30 days from the date of the final audit report.

Working papers shall not be released outside the Internal Audit Division until the audit is completed, the report is issued, and the report is made public when posted on the Internal Audit Division’s web-site. Requests for working papers on completed assignments shall be handled in accordance with Chapter IVA, Public Access to Records. Record retention is discussed in Chapter IVB, Record Retention.

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Externally Contracted Audits: When the internal audit division contracts the audit to an external contractor the fieldwork process is run and maintained by the contractor. The Audit Director shall at any given time have a full understanding of the status of fieldwork and how the work relates to the audit objectives as laid out in the task order and the entrance conference. During fieldwork the Audit Director shall obtain and review monthly project reports from the contractor and work closely with the contractor in understanding that the objectives are on target and that the work is being completed as planned in a timely and efficient manner. Once fieldwork is complete the Audit Director will review the draft report and have full access to contractor workpapers when requested. The Audit Director must review and approve the full draft report prior to review and approval by the IIAA. The discussion draft may be reviewed by both the IIAA and the auditee simultaneously in an effort to save time in the review and approval process.

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Audit Reporting Standards (internally based audits): Auditors must follow GAGAS Reporting Standards for the specific type of audit being performed. (Financial Audits GAS 4.17-4.45; Attestation Engagements GAS 5.18-5.44, 5.50-5.52, 5.56-5.57, 5.60-5.62, 5.66-5.67; and Performance Audits GAS 7.01-7.44)


As stated in Chapter IIA, “Reports on audits and attestation engagements issued by the Internal Audit Division shall include either an unmodified or modified GAGAS compliance statement in accordance with GAS 2.24 (a) and (b). When auditors do not comply with any applicable GAGAS requirement, auditors shall comply with GAS 2.25.” When reporting on financial audits or attestation engagements, auditors may also cite AICPA Standards in addition to citing compliance with GAGAS.

Since the Internal Audit Division primarily issues reports on performance audits, specific reporting standards for Financial Audits and Attestation Engagements are not restated in this chapter. However, auditors shall review the Quality Assurance Checklist (See Form1) and use it as a guide to ensure that all Reporting Standards and internal policies and procedures related to reporting are followed. This checklist must be completed and signed prior to submitting final audit reports to the Interagency Internal Audit Authority (IIAA) for approval.


The key requirements contained in the GAGAS Reporting Standards related specifically to Performance Audits are summarized as follows:

Performance Audits (GAS 7.01-7.44)

- Auditors must issue audit reports communicating the results of each completed performance audit. Auditors should use a form of the audit report that is appropriate for its intended use and is in writing or in some other retrievable form. (GAS 7.03-7.04)
- The purposes of audit reports are (1) to communicate the results of audits to the appropriate officials; (2) make results less susceptible to misunderstanding; (3) make results available to the public, except when certain information may be classified or otherwise prohibited from general disclosure (GAS 7.39); and (4) facilitate follow-up to determine whether appropriate corrective actions have been taken. (GAS 7.05) If an audit is terminated before it is completed and no audit report is issued, auditors should document results of their work to date and why it was terminated. (GAS 6.50, 7.06)
- If after the report is issued, auditors discover that they did not have sufficient, appropriate evidence, they should communicate this information to appropriate officials, remove the report from any publicly accessible website, and determine whether to conduct additional audit work necessary to reissue the report with revised findings or conclusions. (GAS 7.07).

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- Auditors should prepare audit reports that clearly describe in an unbiased manner (1) the objectives, scope (including limitations and constraints), and methodology of the audit; (2) the audit results, including findings, conclusions, and recommendations, as appropriate; (3) a statement about the auditors' compliance with GAGAS; (4) a summary of the views of responsible officials; and (5) if applicable, the nature of any confidential or sensitive information omitted. (GAS 7.08-7.13)
- In the audit report, auditors should present sufficient, appropriate evidence to support the findings and conclusions in relation to the audit objectives. Auditors should (1) describe in their report limitations or uncertainties with the reliability or validity of evidence, (2) place their findings in perspective, (3) disclose significant facts and background information relevant to the objectives of their work, and (4) report deficiencies in internal control that are significant within the context of the objectives of the audit. (GAS 7.14-7.18)
- Auditors should include in the audit report (1) the scope of their work on internal control and (2) any deficiencies in internal control that are significant within the context of the audit objectives and based upon the audit work performed. Auditors should document and refer to any written communication regarding internal control deficiencies in the audit report if such communication is separate from the audit report. (GAS 7.19 - 7.20)
- When auditors conclude, based on sufficient, appropriate evidence, that fraud, illegal acts, significant violations of provisions of contracts or grant agreements, or significant abuse either has occurred or is likely to have occurred, they should report the matter as a finding. (GAS 7.21-7.23)
- Auditors should report known or likely fraud, illegal acts, violations of provisions of contracts or grant agreements, or abuse directly to parties outside the audited entity when, (1) the entity fails to satisfy legal or regulatory requirements to report such information to external parties, and/or (2) when entity management fails to take timely and appropriate steps to respond to known or likely fraud, illegal acts, violations of provisions of contracts or grant agreements, or abuse. (GAS 7.24-7.26)
- Auditors should report conclusions, as applicable, based on the audit objectives and the audit findings. Report conclusions are logical inferences about the program based on the auditors' findings, not merely a summary of the findings. (GAS 7.27)
- Auditors should recommend actions to correct problems identified during the audit and to improve programs and operations when the potential for improvement in programs, operations, and performance is substantiated by the reported findings and conclusions. Auditors should make recommendations that flow logically from the findings and conclusions, are directed at


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resolving the cause of identified problems, and clearly state the actions recommended. (GAS 7.28 – 7.29)


- When auditors comply with all applicable GAGAS requirements, they should use the following language, which represents an unmodified GAGAS compliance statement. (GAS 7.30. 2.24a)

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

- Auditors shall provide a draft report with findings for review and comment by responsible officials of the audited entity and others to help the auditors develop a report that is fair, complete, and objective. Auditors shall include the views of responsible officials so that the report presents not only the auditors' findings, conclusions, and recommendations, but also the perspectives of the responsible officials of the audited entity and the corrective actions they plan to take. Obtaining the comments in writing is preferred, but oral comments are acceptable. Auditors should include in their report a copy of any written comments from responsible officials or a summary of the written or oral comments. Where appropriate, auditors should include an evaluation of the comments, and if auditors disagree with the comments, they should explain their reasons. Conversely, auditors should modify their report if they find the comments valid and supported with sufficient, appropriate evidence. (GAS 7.32-7.38)
- If certain pertinent information is prohibited from public disclosure or is excluded from a report due to the confidential or sensitive nature of the information, auditors should disclose in the report that certain information has been omitted and the reason or other circumstances that makes the omission necessary. When certain information may be classified or otherwise prohibited from general disclosure by federal, state, or local laws or regulations, auditors may issue a separate, classified or limited use report to only authorized persons. Auditors should evaluate whether excluding certain information is appropriate considering the broad public interest in the program or activity under review. When audit organizations are subject to public records laws, auditors should determine whether those laws could impact the availability of classified or limited use reports and whether other means of communicating with management and other officials would be more appropriate. (GAS 7.39-7.43)
- Auditors should document any limitation on report distribution. (GAS 7.44) (See Chapter III I, Report Distribution)

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Externally Based Audits: When an external contractor is utilized to perform an audit, the contractor is required to prepare the report in accordance with GAGAS under their contract with the County. The Audit Director shall work closely with the contractor to review and approve their draft report and communicate with the auditee department and IIAA to obtain approvals and written responses for the contractor. The Director must review and approve the report prior to the IIAA or the auditee reviewing the report so that any requested changes can be made prior to an updated draft is released. The updated Discussion Draft may be provided to the IIAA and the auditee for review simultaneously to avoid any wasted time in the review process. The Audit Director will manage the draft report approval process and work with the Administrative Coordinator to ensure that written responses from the auditee are appropriately added to the report and that the final report is appropriately released for public view (when appropriate) via the Internal Audit website.

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Audit Reporting Policies and Procedures (internally based audits): A written audit report shall be prepared at the completion of each audit or attestation engagement, unless our audit work is performed solely in support of the external financial auditors and they write the report. In addition to complying with GAGAS reporting standards (See Chapter IIIG), auditors shall comply with the Internal Audit Division's policies and procedures when preparing audit reports.

The policies and procedures relate to:

- Characteristics of a Well Written Report
- Stages of the Report Writing Process
- Report Formats
- Review and Approval


➤ Characteristics of a Well Written Report

GAS A7.02 states that report should be timely, complete, accurate, objective, convincing, clear, and concise.

Reports should be issued as promptly as possible to make them available to Frederick County Government, Frederick Community College, and Frederick County Public Schools management and their respective Boards, and other interested parties. As stated in Chapter IIIF, Audit Fieldwork Policies and Procedures, interim reporting may be necessary if findings require immediate attention.

Reports shall be complete. Reports shall state the announced, or revised, audit objectives and contain sufficient, appropriate evidence to answer them. Reports shall not omit significant relevant information related to the audit objectives. Auditors shall clearly state what work was done and explain what work was not done and why. Findings included in audit reports should be significant enough to justify reporting them and be put in perspective as to the extent of deficiencies found. Isolated deficiencies, rather than systemic deficiencies, should not be included in the written report unless there is a significant actual or potential adverse affect or the deficiencies involve fraud, waste, or abuse. Auditors may verbally mention a matter at the exit conference that was not significant enough to include in the report or write a departmental memo as a management letter for written communication form.

Reports issued by the Interagency Internal Audit Authority (IIAA) must be accurate. Supervisory review, exit conferences with the auditee, and cross-indexing/independent referencing help ensure that reports are accurate before issuance. Independent referencing is a process where an auditor, who did not work on audit, traces facts, figures, statements, and conclusions in the cross-indexed report to the working papers. This process ensures that the report is "supported by sufficient,

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appropriate evidence” as required by GASA7.02a. This process may be completed by the Administrative Coordinator when an independent staff member or supervisor does not exist.


Cross-Indexing: For every proposed draft and final report, audit staff will cross-index each line, figure, chart, table, diagram, and picture to the supporting working papers. Opinions should be labeled as auditor’s conclusion and, along with recommendations, do not need cross-indexing. General information included in the introduction regarding the use of the report and management’s responsibility do not need cross-indexing.

Independent Referencing: When the report has been cross-indexed, the auditor shall request the Audit Director to designate an independent-referencer. The referencer must not have worked on the audit (the Administrative Coordinator may be used in an instance where there is no independent staff available). The auditor shall mark on the top of the front page of the report “Cross-indexed and Referenced Report #1” with the date. The referencer will first read the report to obtain a basic understanding of the audit. The referencer will then verify the facts, figures, titles, proper names, quotes, and dates in the report with underlying support contained in the working papers. For charts/tables, the referencer shall verify all numbers to supporting working papers. The referencer will note on the attached Report Reference Sheet (Form 16) when support for a reported fact is not in the cross-indexed working paper, or when there is a question or comment. The referencer shall not accept support based solely on interviews, unless the report states “According to...”. The referencer will only review the choice of words to ensure consistency with the supporting working papers. The referencer shall also note if the working papers have not had supervisory review.

Once all referencer notes have been placed on the Report Reference Sheet, the auditor shall review and take corrective action as appropriate. The auditor shall initial and date all corrective action. The referencer shall review all comments and initial and date the Report Reference Sheet. Once the referencer accepts a line in a report, the referencer shall place a check mark next to the line on the cross-indexed report. If the proposed draft or final report must be changed based on the referencer’s comments, the auditor shall promptly notify the audit manager. When the referencer is satisfied that all comments have been satisfactorily resolved, the referencer shall sign and date the Report Reference Sheet.

If there are unresolved differences between the referencer and the auditor, the matter shall be discussed with the audit manager for resolution. If changes are to be made to the draft or final report based on the referencer’s comments, the Audit Director shall sign the Report Reference Sheet indicating agreement with the changes and shall ensure that the changes are made.

The Audit Director and auditors are responsible for ensuring that any changes made to a

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report, other than minor wording changes, are also independently referenced. The Audit Director has the discretion of having the entire report re-indexed, if the changes are significant. Otherwise, the auditors should highlight changes made on the new version of the report and ensure that those changes have been cross-indexed and independently referenced. The new version must be dated and the auditor shall mark on the top of the front page of the revised report “Cross-indexed and Referenced Report #2” with the date.

The referencing process must be completed before issuance of the formal draft and before the proposed final report is presented to the Interagency Internal Audit Authority (IIAA). All versions of cross-indexed and referenced reports shall be included in the working papers.

Reports shall be presented in a fair and objective manner. Reports should cite positive accomplishments, as well as the need for improvement. Reports should include management’s views of the findings and recognize actions taken as a result of the audit to correct conditions found. The tone of the report should be constructive and inflammatory words should not be used.


Reports should be written in a clear, convincing manner, and conclusions and recommendations should follow logically from the facts. Language used should be clear and simple and technical terms, abbreviations, and acronyms shall be defined. As stated in Chapter IIIF, Audit Fieldwork Policies and Procedures, the best approach for developing and presenting audit findings is to identify the condition, criteria, cause, effect, and recommendation.

Reports should be as concise as possible and include charts and graphs, when appropriate, to help facilitate the reader’s understanding of the finding(s). Information presented should be sufficient to persuade the reader of the significance of the findings, the reasonableness of the conclusions, and the importance of taking action to correct the identified deficiencies. Management improvements and cost savings should be clearly identified.

➤ Stages of the Report Writing Process

Internal Draft: Reports are considered Internal Drafts until the report is issued to the auditee’s management as a Discussion Draft.

Discussion Draft: This report is submitted to the auditee’s management several days prior to the exit conference. The purpose of the Discussion Draft is to obtain the auditee’s informal comments at the exit conference on the findings and recommendations, especially whether they agree with the facts as stated. The discussion draft may be released to the auditee at the same time the internal draft is issued to the IIAA as a time saving effort in the review process as long as the Audit Director has reviewed and approved the internal draft first.

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Draft Report: The Discussion Draft may be revised after the exit conference. This report is then issued to the auditee requesting a written response to any audit findings and recommendations. The auditee is usually given 3 weeks to respond, although the auditee may agree to less time if the 3 weeks is not needed.

Final Report: The Final Report includes the auditee's written response to the Draft Report, a brief summary of the response, and auditor comments, if needed.

Management Letters: GAS 4.22 states that, for financial audits, if auditors issue or intend to issue a management letter on internal control over financial reporting and compliance with laws and regulations and provisions of contracts or grant agreements, they should state in the financial statement audit report that they are issuing a separate written communication to management at the end of the internal control report. GAS 7.19 states that, for performance audits, auditors may include deficiencies in internal control that are not significant to the objectives of the audit in the audit report or communicate it to management in writing separately. If it is communicated separately, it should be referred to in the audit report. Proposed management letters shall be submitted to the IIAA for approval in the same manner as proposed final reports.


Management Letters may also be used for non-attest services, such as investigations, follow-up reviews, or when providing technical advice. Quality Control procedures used for proposed final reports, such as supervisory review, cross-indexing and independent referencing, shall also be followed for Management Letters. At times non-attest services may be in memorandum format to the department in question and therefore management comments will be formulated within the memorandum.

All reports are confidential until issued in Final and shall have the "Confidential" or "Draft" watermark.⁶

➤ Report Formats

The Internal Audit Division does not issue many financial audit reports. When preparing financial reports, auditors shall follow GAGAS reporting standards contained in GAS 4.01-4.48. There is no specific format for Management Letters, and the format shall be left to the discretion of the Audit Director.

⁶ Final Reports shall be marked "Confidential" if the report contains pertinent information that is prohibited from public disclosure in accordance with Maryland's Public Information Act. (See Chapter IIC, Confidentiality; Chapter III I, Report Distribution)

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Audit reports on performance audits or attestation engagements prepared by the Internal Audit Division generally adhere to the following format. An example of a Performance Audit Report is shown in Appendix E.

-Cover:

Report covers shall include the Frederick County logo (or FCC or FCPS logos), Frederick County Interagency Internal Audit Authority, the title of the report, report number, and the date issued. The report number is provided by the Administrative Coordinator. The date issued is the date the IIAA approves the report for issuance.

-Table of Contents

Executive Summary

- I. Introduction
- II. Background
- III. Objectives, Scope, and Methodology
- IV. Audit Results
- V. Summary of Response(s)
- VI. Auditor Comments (if needed)

Appendix


Attachments

As auditors are given flexibility in the format of each report, the Table of Contents may vary. However, the Table of Contents, including finding captions under Audit Results, should serve as a roadmap for the report.

-Executive Summary:

The Executive Summary, if needed, is usually no more than two pages. The Executive Summary (1) answers the announced, or revised, audit objectives, (2) summarizes what the auditors found that worked well, (3) summarizes findings and recommendations, and (4) states whether the auditee agreed or disagreed with the recommendations. Like the body of the report, the Executive Summary shall be written in a constructive tone, with a clear description of the findings and why improvements are needed. Extraneous detail should not be included in the Executive Summary. Instead, the Executive Summary should refer to the body of the report for more details.

-Introduction:

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This section states that the audit was conducted in accordance with generally accepted government auditing standards and briefly explains the standards¹. It states that.

Internal Audit (IA) conducted this (performance audit or attestation engagement) in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. (See Chapter IIIG, Audit Reporting Standards)

This section also describes management's responsibility for implementing the recommendations or assuming the risk if they do not. It also states that the report is intended to provide information to management; however, it is a matter of public record and with the exception of any applicable disclosure exemptions, distribution shall not be limited.

-Background:


This section provides a brief summary of the program, activity, or function being audited. It usually includes information such as the organization responsible, staffing and basic responsibilities, criteria, the number and dollar amount of transactions during the audit period, and any information deemed necessary to facilitate the understanding of the audited program, activity, or function.

-Objectives, Scope, and Methodology:

This section includes the announced, or revised, audit objectives. It also describes the scope of the work performed such as the time period included in testing, the specific program or aspect of a program being reviewed, internal controls evaluated, and locations audited. This section should also identify any scope limitations, constraints imposed on the audit approach by information limitations or scope impairments, including denials of access to records to certain records or individuals. In reporting audit methodology, auditors shall describe the work performed to address the audit objectives. When auditors use extensive or multiple sources of information, auditors should describe how they assessed the sufficiency and appropriateness of information used as audit evidence. When statistical sampling is conducted that significantly supports the auditors' findings, a description of the sample design and why the design was chosen, should be stated, including whether the results of sampling can be projected to the entire population.

-Audit Results:

¹ If any standards were not followed, a modified compliance statement shall be used in accordance with GAS 2.24b.

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This section discusses the detailed audit results including the auditor's findings, conclusions and recommendations related to the announced, or revised, audit objectives. Audit results should contain sufficient, appropriate evidence to support the findings and conclusions and assist management or oversight officials of the audited entity in understanding the need to take corrective action. This section includes recommendations to correct problems identified during the audit and should identify expected benefits to management, such as improved management, and quantifiable cost savings.

Findings usually include a discussion of condition, criteria, cause, effect and recommendation. The inclusion of or emphasis placed on each finding element and the order in which they are presented will vary depending on the audit objectives and the nature and significance of the issue reported.

The audit results section should report:


- Any deficiencies in internal control that are significant to the audit objectives;
- Instances of fraud, illegal acts, significant violations of provisions of contracts or grant agreements, or significant abuse which has either occurred or is likely to have occurred;
- An explanation of limitations or uncertainties with the reliability or validity of evidence if the evidence is significant to the findings and conclusions;
- The status of un-corrected findings from prior audits that are related to the audit objectives; and
- Pertinent, noteworthy accomplishments of the auditee.

-Summary of Response(s):

This section summarizes the auditee's response(s) and indicates whether the auditee concurred with the recommendations or proposed alternative actions. Auditors are encouraged to accept alternative actions that meet the intent of the recommendations.

-Auditor Comments:

This section is needed if the auditors disagree with the auditee's comments or actions, or want to add their own comments to respond to the auditee's comments. If the auditee's response includes comments that the auditor's facts are incorrect, the auditors shall determine whether the auditee's position is valid and supported with sufficient, appropriate evidence. If the auditors determine that there is in fact an error in the draft report, the auditors shall modify the final report accordingly and mention in the final report that changes were made.

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-Appendices:

Useful or important information that is too detailed to include in the body of the report may be attached as appendices. Appendices are assigned letters (A, B, C, etc.) and are always referenced in the body of the report.

-Attachments:

The auditee's response(s) are attached in their entirety.

➤ Review and Approval

All reports are submitted to the Audit Director for review and approval. In addition, the Administrative Coordinator reviews the draft and final reports for grammar, tone, and format. The Audit Director is authorized to issue Discussion Drafts and Draft Reports without IIAA approval.


Once the Audit Director approves the proposed final report, which incorporates the auditee's written response(s), it is submitted to the IIAA for approval¹ in advance of the next IIAA Meeting. The auditee's management is invited to the meeting when the proposed report is discussed. The report becomes final after the IIAA approves it.

After the report is approved, the Report Number and Date are added to the Report Cover. The report is dated the day the IIAA approves the final report. The Administrative Coordinator places the date of the report and the IIAA signature at the end of the Response Section, or after Auditor Comments, if included. The Administrative Coordinator shall obtain approval of the Audit Director prior to distribution of the report.


Report distribution procedures are contained in Chapter III I, Report Distribution.

¹ The Division Director is authorized to issue financial statement reports provided to the County and issued to a State agency, without prior approval of the IIAA, to meet mandated report deadlines. However, the IIAA shall be provided a copy of the report at the next IIAA meeting.

Audit Reporting Policies and Procedures (externally based audits): The external contractor is responsible for putting performance reports together under their quality control processes. Once the contractor releases a report in draft format to the Audit Director, the Director must review and approve the report prior to releasing it as a Discussion Draft to the auditee and the IIAA, the Discussion Draft may be released to both the auditee and the IIAA simultaneously in an effort to reduce the amount of time in review. Once the auditee and the IIAA approve the report the auditee will release their responses and those responses will be provided to the contractor to include in the report. The Audit Director will review the Discussion Draft with all changes (if requested by the

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auditee or the IIAA) and the auditee responses for approval. The IIAA will also need to approve the final Discussion Draft with any corrections and auditee responses. Once the IIAA approves the updated report with responses the report may be dated and released in final form. The Audit Director will be required to manage the draft and final report process ensuring that all approval paths, corrections and public release (if applicable) are carried out.

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Follow-up: Appendix I, A1.08 (f) of the December 2011 Revision to the *Government Auditing Standards* states that Government managers are responsible for addressing the findings and recommendations of auditors and for establishing and maintaining a process to track the status of such findings and recommendations.

To ensure that our findings and recommendations are satisfactorily addressed, the Internal Audit Division conducts a follow-up review approximately 6 months after report issuance and tracks each recommendation until implementation. The follow up process shall begin with a memorandum to the auditee in order to notify them of the follow up procedures and request the status of each recommendation in a return memorandum to the Internal Audit Division. For recommendations addressed, the auditee shall also provide supporting documentation showing the Audit Director that the recommendations have in fact been addressed or implemented.

In order to track this process the Internal Audit Division will utilize a Recommendations and Accomplishments Log (Form 15). The log will be utilized to track the status of recommendations and to identify accomplishments made as a result of audit work performed through the follow up process. The log will be maintained by the Administrative Coordinator and will be used to identify recommendations that have not been implemented and will prompt a follow-up review. The Log will also be used to identify positive results from audits such as cost savings or improved procedures.

The Administrative Coordinator will remind the Audit Director to prepare a follow-up memorandum to the auditee 6 months after the report issue date. The Administrative Coordinator and Audit Director will be responsible for ensuring that the memorandum is prepared and released to the auditee. The Audit Director is responsible for following up with the auditee and seeing that a response is received. The Audit Director will review and approve the supporting documentation from the auditee and determine if recommendations were implemented as stated by the auditee. The Audit Director will then draft a memorandum to be proofread by the Administrative Coordinator prior to release to the auditee explaining if the recommendations have been satisfactorily cleared. Recommendations cleared and uncleared should be recorded in the log along with implementation date (if applicable). This process will be repeated every 6 months to identify recommendations that have not been implemented. The Audit Director shall periodically review this log to ensure that it is kept up to date.

It is not necessary to conduct a full follow-up review on every audit, especially if there is sufficient evidence that the recommendations were implemented and controls are in place to prevent the prior conditions from recurring. However, if significant risks remain in the program or activity being audited, a follow-up review should be included in our Annual Audit Plan. This determination shall be made by the Audit Director, based on input from the lead or staff auditor, if in place.

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Follow-up reports or memorandums are issued to the responsible managers and other appropriate officials. Recommendations not implemented within one-year of report issuance will be brought to the attention of the Interagency Internal Audit Authority (IIAA) for advice on further action that should be taken, such as informing top-level management that issues found in the audit have not been adequately addressed.

The staff auditor or Audit Director shall be responsible for maintaining documentation regarding the implementation of recommendations. This documentation shall be filed in the audit workpaper file.

According to the definitions of non-attest services audit recommendation follow-up engagements and reports are considered to be non-attest services. GAS 2.12 states that GAGAS does not cover non-attest services. Accordingly, auditors shall not use the Quality Assurance Checklist (See Form 1), since GAGAS does not apply to such assignments. However, auditors shall maintain documentation of follow-up reviews in working papers and any report or memorandum resulting from the review shall be cross-indexed and independently referenced prior to issuance. The Internal Audit Division should assess threats to independence when performing all non-attest services including follow-up work that is extensive. For follow-up work taking 40 hours or more independence threats must be taken into consideration and documented.
